

Chapter 10

CCT, Small Towns and Regional Development

- What are the indirect social and economic costs resulting from the decline of small towns?
- To what extent will these be exacerbated by CCT?
- To what extent will the breakdown of small communities and towns impact on the capacity for rural economic production and therefore the State's economy and Victoria's capacity to compete?

10.1 The Dynamics of This Region

Impediments

We noted in Chapter four that the region's economic growth is impeded by ageing population, the exodus of young people, high unemployment, low incomes, declining services, inadequate infrastructure remote location; and water quality and quantity issues

Resilience

Commentators frequently highlight the resilience, pioneering spirit and creativity of the people of this vast and remote region. These human qualities coupled with the particular geography and isolation have led to innovative service delivery, community development and partnership strategies over the years. Whilst this human strength and resilience must not be overlooked, it needs to be remembered that economically the region is fragile.

The dynamics of regional Victoria are clearly different from those of the metropolitan area; and the differences are starkest in more remote and sparsely settled areas such as are characterised by Buloke, Loddon and Towong Shires.

Low Incomes

Take household income for example. 37.6% of households in the region earned less than \$20,000pa in 1991 compared to 34.1% for all of non-metro Victoria. Only 5.3% of households in the region earned more than \$60,000pa in 1991 compared to 6.8% in non-metro Victoria.

But the problem goes deeper: Many dryland farming communities have a substantial proportion of households on very low incomes. For example, in 1991 24.3% of households in the former Shire of Birchip earned less than \$12,000 pa and 15.1% of households in the former Shire of Gordon earned less than \$8,000pa! Many of these households are farming families.

Declining Population

Population trends are another example. In the preliminary population projections prepared by the Victorian Department of Infrastructure, all Victorian regions are predicted to increase in population between 1981 and 2011 except the Wimmera which decreases by 4%.

Buloke Shire's population will decrease from 9,266 in 1991 to 7,768 in 2011, a decrease of 1,498 or 16.2% over the 20 year period. On average, it means 75 people leave the municipality every year. Several other municipalities in the Wimmera, Mallee and Western Districts are also scheduled to lose population.

In Loddon's case, population is projected to increase from 9,796 in 1991 to 10,732 in 2011, an increase of 936 or 9.6% over the 20 year period. However, most if not all of this growth is likely to be in the "Bendigo commuter belt" towns in the south-east of the municipality; and even then the growth rate is at the lower end of the range for Victorian Shires overall.

Decline of Small Towns

These overall population trends tell only part of the story, however. Projections prepared by the Victorian Department of Infrastructure show that small towns and rural areas in the Wimmera and Mallee

Rural communities are facing multiple pressures.

For smaller communities of less than 1000 people, the impact of Compulsory Competitive Tendering as currently required will in many cases add a decisive pressure towards decline.

On the other hand, in some communities larger than 10,000 population there may be some new business opportunities as new companies specialise in the central provision of services from roads to swimming pool maintenance, formerly provided by Councils in a decentralised manner.

For communities in the range 1,000 to 10,000, energetic management will be needed for CCT to bring benefits rather than hardship.

"The multiplier effect means that each dollar spent in this way effectively ripples through the community..."

A small community pays many times over for each dollar it loses under CCT and, in contrast to the position in provincial cities or the Capital, there is no compensating inward flow to make up the loss."

Statistical Divisions (the dry land farming areas) will be the big losers in population compared to larger towns (those over 10,000 in size).

Towns between 1000 and 10,000 population in the Loddon-Campaspe Statistical Division show more growth potential, mainly due to the influence of higher growth towns like Bendigo and Echuca which provide an attraction for rural-residential living.

Over the last 20 years, small rural towns have seen their catchment and "critical mass" fall below a level which can sustain many services and functions, such as schools, hospitals, retail outlets, local volunteer groups and sporting groups. The dismantling of much of the State's railway infrastructure had a big impact on small towns; and now the rationalisation of the banking and financial services industry is resulting in closure of banks in many small towns. In more recent times the rationalisation of many government services such as hospitals and schools is adding to the strain.

The Trap of Declining Property Values

Bendigo-based consultant Trevor Budge noted recently in an article in *Victorian Planning News*, "...continuing population decline in the wheat-sheep belt has substantial social and economic impacts.

One of the most disturbing of these is the way in which people are becoming trapped in towns because of declining house values and the fact that their equity cannot finance a relocation to another town, the metropolitan area or even to purchase new housing in the same town.

Residents in declining towns with most of their savings tied up in their dwelling have few options for financing alternative accommodation. To make matters worse, the already declining property values are further eroded by the inability of trapped residents to maintain their dwellings..."

The increasing move to fixed term contract employment of many professional positions makes appointees more reluctant to purchase housing locally and "put down roots" in the towns. It all makes for a less cohesive and more fragile community.

10.2 The Added Pressure of CCT

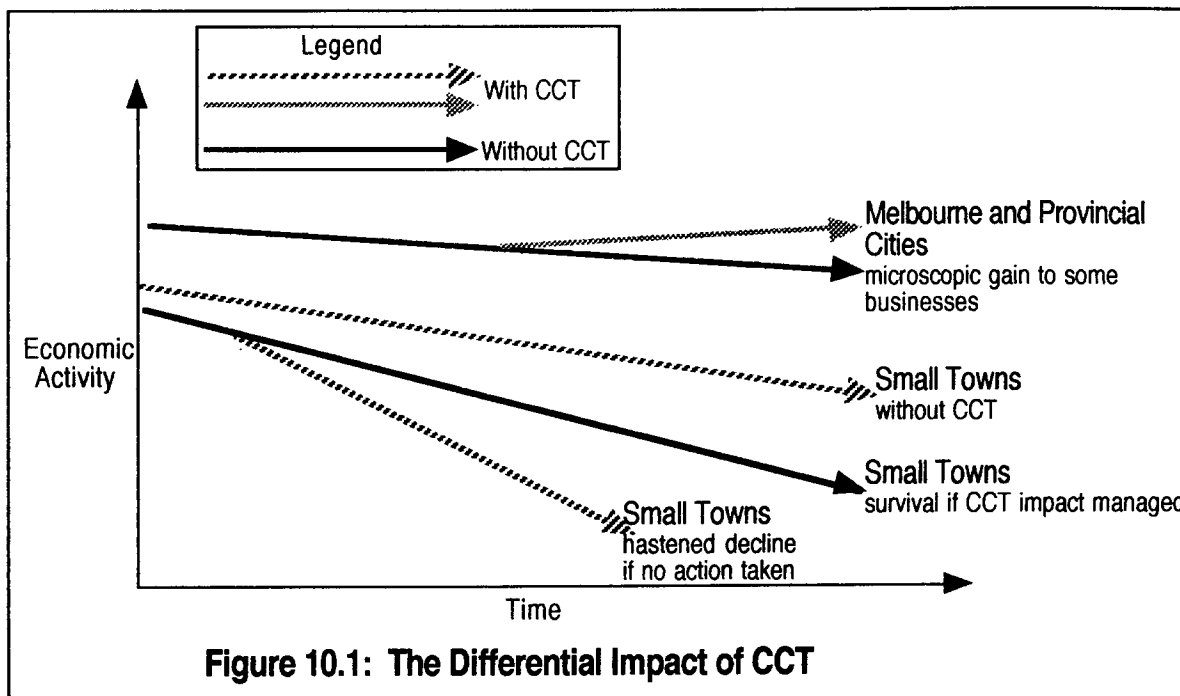
CCT brings with it the prospect of adding further (at times significantly) to these pressures through local jobs being lost in many of these small towns if a significant number of contracts are won by non-local firms.

This concept is illustrated in Figure 10.1 and supplemented by Table 10.1 which indicates the numbers of outdoor Council workers resident in each town and estimates the population loss that would occur if contracts were won by non-local firms - assuming those firms did not re-employ the local workers.

However it would not be stretching credibility to predict a significantly greater impact on the towns, since loss of residents reduces the viability of other support services and businesses, creating an accelerating downward spiral. As we noted earlier in Section 5.5 "The multiplier effect means that each dollar spent in this way effectively ripples through the community: the Council pays the service station, the service station pays the mechanic, the mechanic pays the butcher, and the butcher deposits his money in the bank branch. A small community pays many times over for each dollar it loses under CCT and, in contrast to the position in provincial cities or the Capital, there is no compensating inward flow to make up the loss."

If this scenario is coupled to the already strong pressures of decline on small towns, the future for many towns in Shires such as Loddon and Buloke is bleak indeed, and raises further questions about the future role and viability of Local Government in these areas.

Implementation of CCT should be tailored to reflect the particular economic development needs of regions and better integrated with broader regional and small business policy.



Victoria places great importance ...on its agricultural regions to increase and value-add the production of high quality food ...Clearly there is enormous potential to Australia and Victoria in the growing demand for clean, quality food.

But for this to occur the rural communities which make this production possible require a viable network of towns to provide goods and services, a stable and strong economic and social fabric; and strong Local Government with the capacity and freedom to invest in the future of their communities.

10.3 The Economic Imperative

Some commentators view the pattern of settlement in many parts of rural Australia as simply archaic, in the sense that it reflects the "horse and buggy" era and has not adjusted to the new economy. The trend towards centralisation away from small settlements and into larger provincial centres, they would say, represents a natural progression and reflection of consumer demand.

Whilst in one sense this might be true, it does not deal with the very real economic and social issues bearing down on small towns. If the issues are ignored, we risk weakening the economic and social fabric of the State and its capacity to compete.

Research by Agriculture Victoria indicates that in 1992-3 agricultural products represented 36% of Victoria's export earnings and generated a trade surplus of \$3 billion. The export market for food to Asia is growing at more than 20% per annum as both wealth and population increase. The target for export of Victorian processed food is estimated to be three times the 1991/2 export figures which will require an additional 40% of product to be grown and manufactured.

Victoria places critical importance and great expectations on its agricultural regions to increase and value-add the production of high quality food and other commodities. Clearly there is enormous potential to Australia and Victoria in the growing demand for clean, quality food. But for this to occur the rural communities which make this production possible require a viable network of towns to provide goods and services, a stable and strong economic and social fabric; and strong Local Government with the capacity and freedom to invest in the future of their communities.

Town	Population	Number of resident Council outdoor employees	Percentage of town population lost* if all outdoor work is lost to contract and no alternative jobs found locally
Boort	850	12	4.2%
Bridgewater	305	-	-
Inglewood	750	2	0.8%
Korong Vale	240	-	-
Pyramid Hill	550	8	4.4%
Serpentine	120	4	10%
Mitiamo	80	4	15%
Tarnagulla	170	-	-
Wedderburn	870	24	8.3%
Dingee	75	1	4%
Birchip	1000	12	3.6%
Charlton	1400	12	2.6%
Donald	1700	17	3.0%
Sea Lake	986	15	4.6%
Wycheproof	964	12	3.7%

*Assumes 3 people per household.

Table 10.1: Potential Employment and Population Impacts on Towns in Loddon and Buloke

Source: Shire data.

It is vital that the implementation of CCT be undertaken in a way which enables, rather than prevents, these goals being realised.

10.4 The Need for a Development Framework for Regional Victoria

These concerns are also reflected in the *Regional Consultation Groups Report on the Development Framework for Victoria* to the State Government in March 1995 noted that there are large and persistent disparities between the level of economic development in various regions of Victoria, manifested in different income levels, employment levels and access to services.

It further noted that investment in regional Victoria has a spatial dimension different to that which occurs in Melbourne and that "an agreement must be reached about the provision of basic infrastructure within regional Victoria, with a commitment to develop strategic infrastructure.

It would not be stretching credibility to predict a significantly greater impact on these towns, since loss of residents reduces the viability of other support services and businesses, creating an accelerating downward spiral.

If this scenario is coupled to the already strong pressures of decline on small towns, the future for many small towns ... is bleak indeed, and raises further questions about the future role and viability of Local Government in these areas.

It proposed that:

- a sound development framework for rural Victoria should consist of a balanced combination of: strong local government, effective services and infrastructure, sustainable environmental management; and resource management and development;
- for regional Victoria to make an increased contribution to the sustainable development and prosperity of the State, it will be necessary to enhance the quality of life in regions, house and employ people within the regions; and especially stem and reverse the flow of young people from many communities;
- the need to establish a "whole of government" approach to development policy in regional Victoria and to better integrate the activities within State Government by strengthening the Regional Development Committee of Cabinet;
- and suggested a "duty of care" by larger centres for the smaller ones involving some kind of regional cooperative arrangement recognising the interdependence of small and large centres.

...establishment of larger, restructured municipalities will be able to deliver substantial rate reductions and more effective services, both of which will encourage increased business activity in their regions...the changes will also involve tendering out many of the services that Councils have traditionally provided, but which can be handled better by the private sector. This in itself will provide new business opportunities in each area of the State as well as further cutting the costs of the Councils themselves."

Extract from the State Government's Rural Victoria 2000^{*} Policy.

10.4 State Government Regional Development Policy

We examined the Victorian Government's main regional and rural development policies with respect to the issues raised in relation to CCT.

"Rural Victoria 2001"

In the Government's words, this is "a long term program that recognises the economic development and social and community needs of rural Victoria and enshrines them as part of the Government's strategy to position the State as a vibrant, well served business centre in the 21st century."

In this publication the Government emphasises "the need to underpin rural Victoria's high quality of life with appropriate levels of services." It states that "responsible public sector management and efficient service delivery in in such sectors as education, health care, community services, public safety, transport and the provision of energy and water have required substantial changes in the way those services are managed and interact with their clients in rural areas."

The policy goes on to say: "...establishment of larger, restructured municipalities will be able to deliver substantial rate reductions and more effective services, both of which will encourage increased business activity in their regions...the changes will also involve tendering out many of the services that Councils have traditionally provided, but which can be handled better by the private sector. This in itself will provide new business opportunities in each area of the State as well as further cutting the costs of the Councils themselves."

"Investing In Country Victoria"

This nine-point plan (about to be superseded) was intended as a framework for the implementation of policies and programs to create a climate for economic growth across all of Victoria, so that all rural and provincial centres in the State share in economic growth and prosperity.

The plan included investment attraction strategies, targeted (selective) assistance to firms relocating to country Victoria, support for local development organisations, business advice for regional firms, services offered by the Office of Regional Development, streamlined development approvals and planning systems, building on specific strengths of regions; and promoting country Victoria.

Recent Changes in Government Policy

The BARA (Business Advice in Rural Areas) Program ceased on June 30th 1996. This provided economic and rural development support for small towns, with an emphasis on developing new businesses, but was no longer seen as relevant by the Government since all new Local Governments now have economic development units which are expected to provide this kind of support. This approach is consistent with the enhanced role of Local Government foreshadowed by the Government.

Annual funding for economic development committees and boards has also ceased. This provided funds for both country and metropolitan economic development boards at levels from \$60,000 to \$250,000 annually.

It is understood a new Rural Development Program is to be launched later in 1996.

While the "Rural Victoria 2000" Policy promises new business opportunities, what it does not indicate is the distribution of those opportunities...

...the Statement reflects the indiscriminate nature of current policy when it speaks of business opportunities while being silent on the quite different impacts such changes in the pattern of such opportunities has on small towns compared with provincial cities and Melbourne.

Without (modest) policy changes and substantial investment in training and equipping small business to respond to the opportunities, CCT may well act against the interests of small business...

...we will then have been spectacularly successful in transferring income from smaller country communities to provincial cities and to Melbourne, without an overt decision to do so ever having been made.

There is a need to effectively integrate CCT, regional development and small business policies and the charter of Councils so they work as an integrated and consistent package.

Comments

1. While the "Rural Victoria 2000" Policy may promise new business opportunities, what it does not indicate is the distribution of those opportunities. In general, it is clear that the new business opportunities are occurring in Melbourne and the provincial cities; smaller communities are losing a significant share of the trade their Councils formerly brought to them: indeed it is clear there is a negative multiplier effect at work.

In other words, local business is losing, and so are the service industries from banking to printing which depend on local business for their survival.

The policy statement reflects the indiscriminate nature of current policy when it speaks of business opportunities while being silent on the quite different impacts such changes in the pattern of such opportunities has on small towns compared with provincial cities and Melbourne.

2. Whilst the government's stated aim is the development of new business opportunities in rural areas, most small businesses appear to be unprepared and inadequately equipped to respond to the CCT system.

Without (modest) policy changes and substantial investment in training and equipping small business to respond to the opportunities, CCT may well act against the interests of small business by transferring income from smaller country communities to provincial cities and to Melbourne, without an overt decision to do so ever having been made. There is little evidence of capacity for rural Shires to reduce rates by the 20% government directed target without seriously compromising their viability as Shires, the quality of services provided and the capacity to maintain and develop infrastructure necessary to stimulate economic development; in fact the opposite seems to be the case.

The combination of rate reductions and CCT might be superficially attractive in metropolitan Melbourne, but is not always in the best interests of rural communities.

3. There is a clear need to effectively integrate CCT policy with policies for regional economic development and small business; and with the charter of Councils set out in the Local Government Act. They need to work as an integrated package of initiatives and they must be consistent.

The current review of regional development policy and recently announced review of CCT provide an excellent opportunity for these issues to be addressed.

How CCT Can Undermine a Small Town Economy

Scenario: The Local Bakery

In the Shire of Buloke, with an average population of 1,000 in each of its five main towns, a "close-up" analysis was undertaken to illustrate the impact of job loss on an individual business, the "local bakery".

At present Council, as the largest employer within the municipality, injects almost \$2 million annually into the local economy in the form of "take home pay" for employees. The local businesses such as supermarkets, the bakery etc. rely on a portion of these funds in their turnover.

If, under a CCT arrangement, those wages were to convert to payments to contractors which employed local staff then from a business and local economy perspective, there would be little change. The businesses would continue to receive an indirect return of their rates.

If, however, under a CCT arrangement, the payments were made to a contractor who employed staff based outside the municipality, then the weekly shopping funds would tend to circulate where those staff were based and would be lost to the local business. This lost revenue may not be entirely compensated by the rate reductions due to CCT savings.

There is potential for this impact to be significant given that Council is the largest employer and that the towns have small populations. The case example below helps illustrate this:

Data:

*Price of local standard white loaf:	\$1.90
*Profit component per loaf (36%)	\$0.70
*Average weekly household expenditure on bread (ABS)	\$4.73
*Average no. of local loaves per household	2.48
*Council rates for the bakery 1995/6	\$218.00

Assumptions:

- *Savings through CCT: 20%
- *CCT savings fully applied to rate reductions.
- *Contract awarded to non-local residents.

Resulting in....

One household moving from the area and not being replaced.

Calculations:

*Rate reduction to bakery as a result of CCT savings:	\$43.60 pa
*Reduction in profit (2.48 (loaves) x 52 (weeks) x 0.7 (profit component))	- \$90.27 pa
 *Nett loss	 \$46.67 pa.

In other words, the rate reductions enjoyed by one local business as a result of CCT savings would be less than half of the profit lost through just one household leaving the town, let alone several households. In this situation there is no saving to either the community or local businesses and no benefit to the economy of the town - in fact the reverse is true.

The potential multiplier effect of this action is enormous, as is the overall impact on the economic and social fabric of small towns.

CCT, lower wages and income redistribution:

If savings are made by the Council through contracting out to a company based well outside the region, and local townspeople are employed by the successful contractor, they may well be employed on lower wages than they previously enjoyed as Council employees. (Even where in-house teams have won tenders, in many cases this has only been possible with pay cuts). This reduces spending capacity which impacts on the local economy. So who really benefits? Income is redistributed from the small town to the provincial centre or capital city.

Chapter 11

CCT Implementation and the Prerogative of Councils

“...in itself, CCT is consistent with one of the roles of good government, but needs to be applied in the context of the complete set of government roles.”

Used wisely, CCT will assist Councils in achieving some of their objectives laid down in the Local Government Act. It does also have the potential to work against some of these objectives.

11.1 Competition Policy in the Context of Government

Both the National Competition Policy and the Victorian Government's CCT Program cite efficiency in the delivery of services and the efficient allocation of society's resources as core objectives.

Whilst the NCP does require “the application of competition to be selective and take into account considerations such as ecologically sustainable development, social welfare and equity, economic and regional growth and the interests of consumers generally; and that these aspects should form part of a “public benefit” analysis prior to instituting structural changes related to the introduction of competition”; and there are certain provisions in the Victorian CCT legislation which give an implicit freedom to Councils to consider issues other than efficiency and price, the primary objectives of NCP and CCT are competition and efficiency.

Clearly, one of the important roles of government is the efficient allocation of resources; but there are other equally important functions of government.

In itself, CCT is completely consistent with one of the roles of good government, but needs to be applied in the context of the complete “set” of government roles.

11.2 The Local Government Act and CCT

The Victorian Local Government Act prescribes the purposes of a Council to be:

- to provide for the peace, order and good government of its municipal district; and
- to facilitate and encourage appropriate development of its municipal district in the best interests of the community; and
- to provide equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively; and
- to manage, improve and develop the resources of its district efficiently and effectively.

There is no doubt that CCT, if used wisely and effectively, is a valuable tool to assist the achievement of objective IV and objective III. Depending upon the circumstances, it may also contribute indirectly to objectives I and II. If used inappropriately or in isolation from other mechanisms it has the potential to work against some of the elements of objectives I, II and III.

The Act goes on to list twelve objectives which Councils have in seeking to achieve their purposes. One of these objectives is “to represent and promote the interests of the community and to be responsive to the needs of the community”.

Section 8(3) of the Act states that “a Council has the power to do all things necessary or convenient to be done for or in connection with the performance of its functions and to enable it to achieve its purposes and objectives”.

Schedule 1 of the Act lists the functions of Councils and the range of services they may provide. It is a non-prescriptive list and includes the encouragement of employment opportunities and the encouragement of commerce, industry and agriculture.

11.3 How the New Victorian Local Government Was Envisaged

The Victorian Local Government Board's report on the Role and Function of Councillors (August 1995) discusses at length the new roles and challenges facing elected representatives in Victoria's newly restructured Councils. In noting that CCT, deregulation of the labour market, improved financial management, new reporting provisions, bench marking and FOI will all require Local Government to operate quite differently in the future; the Board pointed out that these factors will lead to far greater responsibility for elected representatives who will in future have to undertake their role in a more strategic way.

In the Board's own words, the role of new Councillors will be characterised by:

- the primary role in determining policy, setting objectives and establishing the strategic directions of Council;
- overall responsibility for establishing and guiding policies, setting delivery standards and overseeing the performance of management;
- far greater emphasis on strategy, including promoting economic development and tourism;
- a shift of focus from the minutiae of day to day involvement in administration of council policy, programs and operations to one of embracing the bigger issues involved in preparing their municipality for the future;

The Board went on to note that "...CCT alone imposes four different roles on a Council: as a policy maker, as a client, as a contractor and as a provider of technical, legal, financial and human resources management support where before it was a direct service provider. Ultimately a Council may come to see itself as a "bare enabling authority" - in other words, an authority that is a facilitator of the provision of services rather than a provider in its own right."

The critical stages in service delivery will be service planning, tender specification and the selection of successful tenderers, all of which are driven by the Council's corporate plan, policies and budget. These factors will place a far greater responsibility on the elected representatives.

The Board noted that in some submissions there appeared to be a view that its proposed reforms may diminish the role of Local Government. It responded positively, saying: *"Nothing could be further from the truth. The Board recognises the considerable and broad responsibilities of Councillors in representing the interests of their community. It recognises the strategic role of Councillors pursuing the best interests of the community, a role enhanced by recent amalgamations and reforms."*

"Local Government reforms have created the potential and capacity for Councils to be more pro-active in providing leadership to enable local communities to take control of the quality of their life in a far more effective way."

"With larger geographic units Local Government is now in a much better position to adopt a strategic approach in identifying local needs and meeting them. As the third tier of government it has a vested interest in integrated planning at the local level. The structure means that it will be possible for the new municipalities

to develop integrated responses to community needs in areas such as infrastructure planning and development, economic and social development, planning and specialist functions can now be addressed in ways not possible in the past."

"Local Government is changing in such a way that it will become a true partner with State and Federal governments."

11.3 Is The Implementation of CCT Consistent With This Vision?

It appears, for some rural Councils at least, that aspects of the implementation of the CCT program are potentially inconsistent with both the broader charter of Councils set down in the Local Government Act and with the vision and roles laid out by the Local Government Board. For example:

- the legislated requirements of CCT require Councils to market test a very high percentage of services (and, where in-house bids are unsuccessful, contract them out) without providing Councils with sufficient flexibility to consider issues including the suitability of the service for contracting, the absence of competition, whether it will result in improved quality, or in broader social and economic impacts on communities, businesses and towns;
- the indirect impact of contracts being awarded to non-local firms has a potentially much greater impact on the viability of local and regional economies in rural and remote areas than in the metropolitan economy;
- the downsizing and de-skilling of Councils through contracting out raises questions about the future viability of smaller rural Shires;
- to maintain the motivation and commitment of rural Councillors, some of whom may have to drive 100km or more to attend each Council meeting, they must be given a level of autonomy and responsibility about contract decision-making which current arrangements deny them.

The mandatory, inflexible and time-pressured nature of CCT implementation is making it difficult for some Councils to perform one of their key functions conferred under the Local Government Act - namely to govern effectively in the interests of their community.

It seems that on the one hand Councils are being told they have a key responsibility for the leadership, strategic direction, integrated planning, economic prosperity, social cohesiveness and delivery of excellent services for their local communities; yet on the other hand required to implement competitive tendering within a framework and timeframe which reduces the flexibility of their organisation and compels them at times to act against the economic interests of their local businesses and community. In some cases, it means Councils having to consciously set their municipalities into decline in order to comply with CCT requirements.

Furthermore, the Government has sought to encourage a higher calibre of candidates to stand for election as Councillors in order to produce a more strategic, businesslike and visionary approach to Local Government. By restricting the flexibility of Councils to implement CCT in a way which is best for their local community and reducing the Council's capacity to raise income for local initiatives (including much needed infrastructure for economic development), the autonomy for new Councillors to exercise choice will be limited and this will not encourage a lasting commitment from the very candidates being sought.

It seems that on the one hand Councils are being told they have a key responsibility for the leadership, strategic direction, integrated planning, economic prosperity, social cohesiveness and delivery of excellent services for their local communities; yet on the other hand required to implement competitive tendering within a framework and timeframe which reduces the flexibility of their organisation and compels them at times to act against the economic interests of their local businesses and communities.

11.4 The Impact of Income Limits on Rural Councils

Although not the prime focus of the study brief, the issue of prescribed income limits (PIL) and government-directed rate reductions were highlighted by a number of Councils during the Study, unprompted by the consultants, and are prominently noted in the Towong Case Study in Chapter 7. It was said that these measures are having significant impact on rural Councils. At least three points can be made:

- If it was the government's intention that savings delivered through CCT would compensate for reduced income levels caused by rate reductions and PIL, this is clearly not the case in a number of rural municipalities;
- The already low rate base and low population of a number of rural Councils is being exacerbated, rather than helped, by reducing Council income;
- While Councils are being asked to focus on strategic, long-term issues and place a high priority on economic development, they are being denied the capacity and prerogative to raise the necessary resources.

A review and modification of rate reduction and prescribed income limits policies (as they apply to rural Councils) undertaken in conjunction with the CCT review would be warmly welcomed by and beneficial to the challenges facing rural Victoria.

Chapter 12

A Framework for Response

12.1 The Challenges For Rural Councils

Whilst a number of the issues identified in this Study will require action by the State or Commonwealth Governments, a considerable responsibility rests on Councils themselves.

The challenges posed by CCT and its impact on rural and regional communities will require Councils to exercise strong and effective leadership, develop robust and clear visions and strategies with their communities; and take innovative and pro-active measures to promote economic development - both at the local and regional level.

An important element for Councils and their communities will be deciding what kind of Local Government is wanted. For example, what will the emphasis be in terms of Council's role as a service deliverer... as a pro-active leader...as an agent of economic development...etc? To what extent does the community want or expect Council to deal with issues of local employment? What strategies will be needed to maintain viability of local government functions in the municipality?

The success or failure in addressing the issues raised in this study depend on a partnership between all spheres of government. In that respect, Councils must take their share of the responsibility, but need to be given the autonomy necessary to do so.

12.2 A Three Dimensional Response

The issues raised by CCT and through this Study are many and complex. The following approach is recommended for addressing the issues and solving the problems.

A Partnership Approach

The approach needs to be a partnership between Local, State and Commonwealth Governments, since many of the responsive actions need to be taken by more than one sphere of government; and there are some actions which can only be effected by one particular sphere of government.

A Three Dimensional Approach

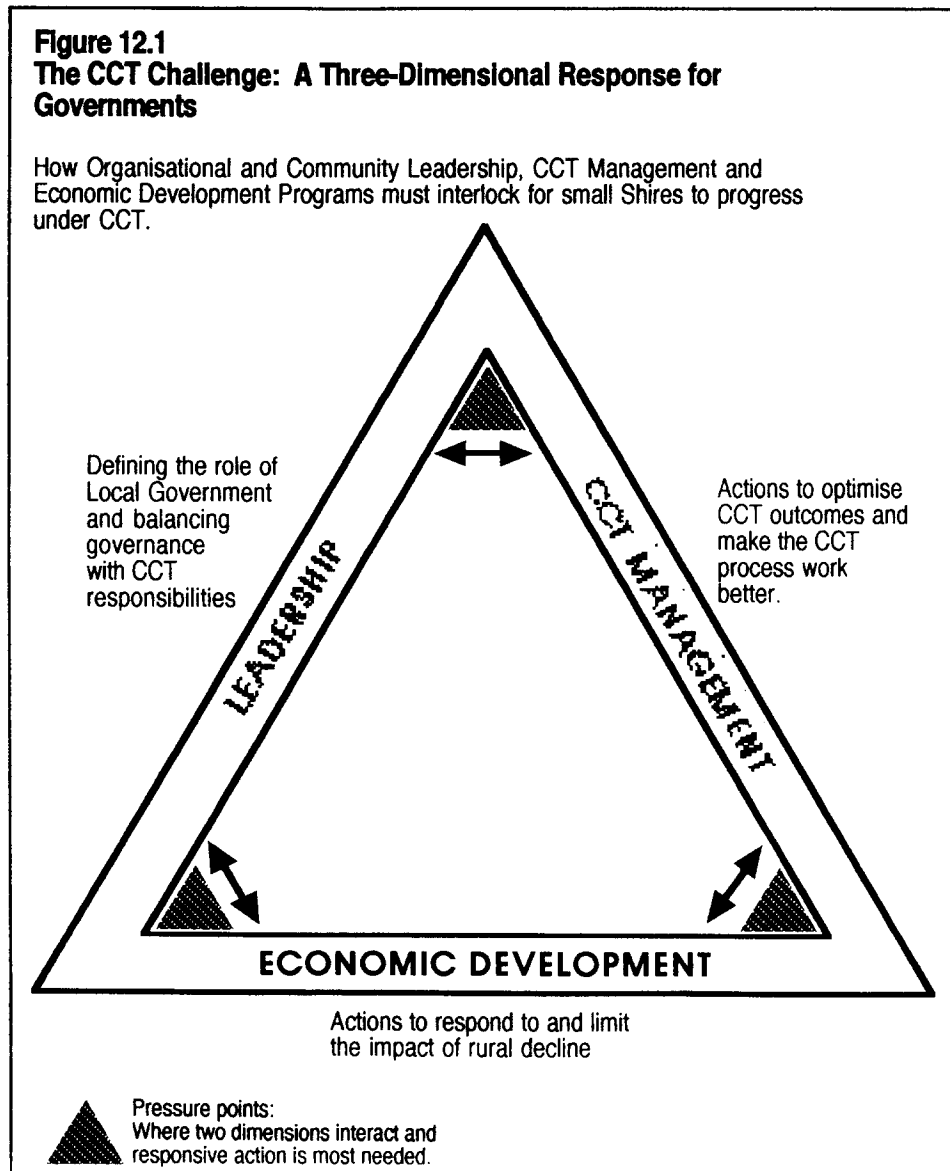
The approach to these issues needs to be three dimensional. For convenience we have termed the three dimensions "Government and Leadership", "Economic Development" and "CCT Management" and are illustrated in Figure 12.1.

It is necessary to take this three dimensional approach because:

- a number of the problems identified are not caused (even indirectly) by CCT, but are of a more complex and intractable nature and are intensified by the impact of CCT;
- whilst some changes to the implementation of CCT are urgently needed in rural Victoria, a number of the issues require positive leadership, innovative economic development techniques, changes in attitude on the part of many players; and a more integrated "whole of government" policy approach.

- ◇ **Government and Leadership**
issues relating to the role and function of Local Government particularly, but also the other spheres of government;
 - ◇ **CCT Management**
issues relating to improving and refine current CCT legislation and processes, given that CCT is a reality that must be recognised and used for maximum benefit;
 - ◇ **Economic Development**
dealing with the broader issues of rural decline through appropriate economic development initiatives.
- ◇ **Each sphere of government has a role in each of the three dimensions of the triangle.**

Recommended actions are listed in Chapter 14, which also indicates which sphere or spheres of government should be responsible for implementation.



Chapter 13

Conclusions

This Study has attempted to address some key questions relating to CCT implementation in Victoria, as it applies to rural municipalities.

These questions include:

1. Is CCT achieving the direct objectives intended by Government - namely contestability, efficiency gains and most importantly, cost savings to the community? And how well?
2. Is it having indirect effects?
3. What are the positive and negative indirect effects?

...and in relation to questions 2 and 3:

- ◇ what are the impacts on the economic and social fabric of small towns and rural areas?
- ◇ Is CCT as it is currently imposed preventing rather than enhancing the ability of Councils to exercise their broader governance role?
- ◇ Is CCT working in contradiction to other important elements of government policy?

Explanatory Notes

Our conclusions at this point are focussed on the situation in rural Victoria only. We do not suggest that these conclusions apply to the metropolitan area or some provincial cities.

At the outset, it is important to note that these conclusions are limited by three factors:

1. *the difficulty in distinguishing clearly between the impacts of CCT and the effects of other elements of the Local Government reform program - especially amalgamations, prescribed income limits and rate reductions.*
2. *the difficulty in distinguishing between the current or potential impacts of CCT and the other forces of decline acting on small towns;*
3. *the fact that the CCT program is still in its early days of implementation and in many cases the "jury is still out" on determining the full extent of impacts the program is having.*

INTERNATIONAL EXPERIENCE

- International experience shows that contracting out delivers the greatest cost benefits to maintenance, cleaning and refuse collection services, negligible savings in other areas, and generally does not influence service quality. The average cost saving for all contracting out is between 6 and 12%, however contracting-in delivers almost identical savings to contracting-out, except for cleaning and refuse collection which are significantly cheaper when contracted out. The threat of competition and acquisition of new financial performance data alone leads to real performance improvements.
- Contracting out can reduce openness, scrutiny and accountability of government, result in job losses and wage reductions for on weaker groups in society and allow service reductions to be more easily disguised.

VICTORIAN RURAL COUNCILS' EXPERIENCE TO DATE

- By all accounts, CCT has been highly successful in changing the culture and attitude of Councils and their staff for the better.
- CCT has (understandably) imposed additional costs on Councils. In 40% of cases these costs are outweighed by definite overall savings from CCT, but in around 50% of cases these costs exceed the savings (at least at present) resulting in a nett cost to Councils. The most prevalent and largest savings are to be found in some - but not all - of the larger provincial cities.
- In-house bids tend to increase the competitiveness of external tenderers.
- At this stage there is no significant evidence of local job losses resulting from CCT, however many "big ticket" contracts have not yet been let by rural councils and the full social and economic impacts are yet to occur, much less be noted or analysed.
- CCT is forcing businesses to "lift their game", however the large majority of local firms are not well equipped to compete under CCT, with firms in urban areas having an advantage.
- In around two thirds of Councils, CCT is enabling provision of better services (expressed through quality, efficiency, price, industrial relations, flexibility, customer focus, specification of standards) with around one third reporting no improvement (principally because of lack of competition (market failure), excessive focus on cost reduction resulting in unsustainable prices and likelihood of service failure; difficulty for rural Councils in packaging tenders; and reduced flexibility of Council organisation).
- 25% of respondents reported overall positive impacts of CCT. Overall negative impacts were cited by 65% of respondents.
- The positive impacts of CCT include an improved focus on core business and outcomes, more money for capital works, appreciation of cost, organisational efficiency, better business planning priority setting, reporting, benchmarking and performance measures, cultural change, increased (redirected) funds for capital works and access to innovation and technology.
- Negative impacts include loss of economies, demarcation, loss of organisational synergy and productivity and morale problems caused by the client/provider split, deskilling of Councils, excessively pressured implementation time frames and performance targets, excessive focus on driving down prices to the detriment of other issues, unsustainable prices resulting in contract management and policing problems greater for rural Councils than elsewhere, cumbersome processes, excessive paperwork and government reporting, organisational stress, low morale, dual accounting systems and inappropriateness of percentage targets as an implementation tool.
- *Most importantly however, an overall pattern of the responses is that both the negative impacts of CCT and the inability of it to produce savings are significantly more prevalent amongst rural Councils; whilst the positive impacts of CCT and the frequency and size of the savings are significantly more prevalent amongst larger provincial cities (though not all). When coupled with other evidence and findings compiled throughout the study, it forms one component of a strong case for a modified approach to CCT implementation in rural Shires.*

...AND IN LODDON AND BULOKE SHIRES:

- Analysis of tenders in Loddon and Buloke found the Shires were handling CCT efficiently and proficiently, but with significant contract dollars flowing out of the region (two thirds in Loddon, 98% in Buloke) with around 25% in dollar terms going well outside the region.
- Competition for the supply of services is strong and has been increased through CCT, but local firms are not well equipped to respond, hence the outflow of dollars.

- The most significant issue is that of road maintenance and construction, with two thirds of the Councils workforce and the biggest single item of expenditure. It raises serious issues as to the future role and viability of these sorts of shires; and places critical importance on shires articulating a plan for their viability in the medium term
- There is a perception amongst Council staff that CCT guidelines are so strict in order to ensure government is downsized to the maximum extent and that it will be futile for Councils to strive for competitive survival of in-house services.. There is also pressure on Council staff to award tenders on the basis of lowest cost irrespective of employment considerations.
- Benchmarking exercises undertaken in the Study provide positive support for the Shires in finding that delivery of road maintenance services in Loddon and Buloke appear to be generally consistent with the market and, as such, there is no reason to be apprehensive of market testing per se. Furthermore, given that road maintenance is such a crucial service, it is worth noting that there is nothing in the benchmarking results which would indicate that either Shire would not be able to compete readily with the private sector.

IMPACT ON LOCAL EMPLOYMENT

- The full social, economic and employment effects of CCT policies have yet to flow through in most rural communities. As this progressively occurs in coming months, the spending losses and their multipliers, described in the Study, will inevitably result in widespread job losses both directly and indirectly in smaller communities. The claimed aggregate economic benefits to the whole of Victoria from this process are likely to be of little interest and no practical value to these smaller communities as they lose residents, ratepayers, customers, committee members, bank depositors, youth leaders, carers and sportspeople through these processes. Avenues of reform which are less draconian in their impacts on smaller communities are vitally necessary for the social fabric, economic capacity and regional development of the State.

IMPACT ON SMALL BUSINESS

- While a key rationale for the introduction of CCT has been to improve opportunities for private sector service innovation and delivery, especially small business, it appears that in rural areas at least, small businesses are being particularly disadvantaged by aspects of CCT and are inadequately prepared in attitude, culture, quality and service to compete. Because of the particular factors facing small rural towns, small businesses in those towns face multiple disadvantages.
- The particular indirect impacts of CCT on small firms include:
 - lack of organisational structures and frameworks within firms;
 - lack of skills required to participate in the complex "tendering system" (especially in analysing and preparing tender documents);
 - contract managers in government are more likely to favour larger firms because of the perceived lower risk of contract failure, level of backup, quality assurance systems and the like;
 - local suppliers being bypassed in favour of bulk purchasing schemes due to time CCT timeframes and pressures;
 - price undercutting and at times unsustainable but strategically convenient pricing by larger firms in major centres;
 - lack of training and support services in CCT and organisational frameworks for small firms.
- In addition, there are conflicting interpretations as to the legality of giving preference to local suppliers in the tendering process.
- All these create a dynamic where business is and will increasingly be taken from small businesses and small communities and transferred to larger firms and larger communities. At present, the Government's small business policy and the CCT policy appear to be working in contradiction, with the impact being felt more starkly in rural areas and small towns.

CONSISTENCY WITH OTHER STATE GOVERNMENT PROGRAMS

- There appears to be little capacity for rural Shires to reduce rates by the 20% Government directed target without compromising the quality of services provided, the capacity to maintain and develop infrastructure necessary to stimulate economic development; or in some cases compromising their viability as Shires. The combination of rate reductions and CCT might be superficially attractive in metropolitan Melbourne, but is not always in the best interests of many rural communities.
- Current government policy aims to achieve greater opportunities for business, but its application is indiscriminate, resulting in losses for businesses in small towns and gains by those in provincial centres and the capitals.
- Small business, CCT, rural development and local government policies all need to be better integrated than at

present, as their stated intention is not being delivered in practice. CCT implementation should be part of a whole of government approach to rural and regional development.

□ CCT, RURAL COMMUNITIES, SMALL TOWNS AND REGIONAL DEVELOPMENT

- CCT is the latest of a range of forces impacting on small rural communities. But the decline of such communities should not be accepted as inevitable - it is of fundamental importance to Australia's and Victoria's economy. The real and potential impact of CCT in rural Victoria is inextricably linked to longer term economic and regional development issues.
- The State's economic future is heavily linked to agriculture and related value-adding such as food processing. The success of this strategy will depend upon a strong social and economic fabric in these regions - including viable towns to service the rural communities and viable and strong Local Governments to lead them. For regional Victoria to make an increased contribution to the sustainable development and prosperity of the State, it will be necessary to enhance the quality of life in regions, house and employ people within the regions and especially stem and reverse the flow of young people from many communities. Rural communities need to be supported and sustained, because they represent an essential social and economic fabric of the State's rural economy. With the State's rural and economic strategy placing great emphasis on the development of rural production, this matter is too important to overlook.
- The region is one of the State's richest agricultural producers, yet has a fragile economic and social fabric characterised by many features associated with rural decline: an agriculturally based economy, low population density, small (most under 1000 in size) and declining towns, aging population, exodus of young people, high unemployment, low average incomes, decline in public and private services, inadequate infrastructure, remote location and water quality issues.
- There is enough evidence to predict that CCT will further threaten this fabric, the viability of local businesses, and Local Governments themselves, if changes are not made to its implementation.
- Towns of 1000 and less, as are prevalent in this region are the most susceptible to decline and will be hardest hit by CCT unless action is taken. Those between 1,000 and 10,000 will require energetic management and leadership on the part of Councils and communities (and corresponding support by State Government). The direct loss of jobs from these towns has significant multiplier effects which create a downward spiral.
- The State Government's rural development policy proposes that larger and restructured municipalities will deliver substantially reduced rates and more effective services and that contracting out will provide new business opportunities in the regions. But the evidence is that this combination of objectives is only deliverable in metropolitan areas and larger provincial cities; not in rural areas and especially not in more remote regions. The policy is indiscriminate in nature because it is silent on where the new business opportunities are. CCT will transfer opportunities and economic benefits from small towns to larger towns and larger communities.

□ PARTICULAR CCT ISSUES FACING REMOTE RURAL COUNCILS

- The current "one size fits all" approach of CCT guidelines is insensitive to the special circumstances faced by many rural Shires, namely:
 - geographic remoteness;
 - low population and rate base combined with high infrastructure costs
 - market failure due to inadequate numbers of firms (and in some cases a complete absence) able or willing to compete;
 - a more entrenched and inward-looking local culture (attitude to change)
 - the perilous state of the economic and social fabric of many small towns caused by a complex range of broader economic forces.
- The same could be said of the rate reduction and *Prescribed Income Limits* policies. Low population and rate bases coupled with revenue reduction policies can create intractable problems which further amalgamations will not solve.
- If CCT was intended to deliver savings to compensate for rate reductions, rate capping and reduced government grants, this is not occurring in practice in smaller rural Councils. Again, this is a much more significant issue for smaller rural Councils where alternative revenue sources are more limited. Regardless of the merits or otherwise of the State government's directed rate capping and rate cuts, there is a case for their terms and conditions to be reviewed for rural municipalities.
- In many cases there is no competition; and CCT will not work where competition does not exist.
- The purchaser/provider split is creating inefficiencies and organisational dysfunction for smaller Councils. This is a very significant issue for Councils; and appears to be making organisational unity more difficult.

- The tight timeframes for CCT implementation are clearly causing distress to many Councils; and there is some evidence that this is both inhibiting the potential benefits of CCT and exacerbating the loss of contracts from local businesses to firms in Melbourne and provincial centres.
- The small nature of many rural Shires invites the packaging of tenders in inflexible and inappropriate ways in order to attract competition.
- Rural Councils are further disadvantaged by the mandatory inclusion of depreciation costs in the "percentage of total expenditure" targets for CCT. This is because they have larger quantities of roads than urban areas, thereby increasing the depreciation figure as a percentage of overall expenditure.

IMPACT ON THE BROADER GOVERNANCE ROLE OF COUNCILS

There is no doubt that CCT, if used wisely and effectively, is a valuable tool to assist the achievement of some of the objectives of Councils specified in the Local Government Act but, if applied uniformly and indiscriminately, has the potential to work against some of these objectives and impact on the broader governance role of Councils. For example:

- the legislated requirements of CCT require Councils to market test a very high percentage of services (and, where in-house bids are unsuccessful, contract them out) without providing Councils with sufficient flexibility to consider issues including the suitability of the service for contracting, the absence of competition, whether it will result in improved quality, or in broader social and economic impacts on communities, businesses and towns;
- the downsizing and de-skilling of Councils through contracting out raises questions about the future viability of smaller rural Shires; (this risk is significantly higher for small rural Councils where road maintenance functions are such a large proportion of Councils' workforce and these are functions more naturally suited to contracting out);
- to maintain the motivation and commitment of Councillors, and attract Councillors of the calibre desired by government, they must be given a level of autonomy and responsibility about contract decision-making which current arrangements deny them.
- the speed at which Councils are expected to meet percentage targets is such that inadequate time is available to prepare both in-house staff and local businesses for the new CCT environment.
- the uniform application of CCT across the State coupled with the dilemmas faced by some rural and remote municipalities suggests that the implementation of CCT in Victoria has not adequately taken account of the requirements of the National Competition Policy and subsequent *Competition Principles Agreement* for the application of competition to be selective and take into account considerations such as ecologically sustainable development, social welfare and equity, economic and regional growth; and the interests of consumers generally.
- although not part of this Study brief, the uniform application of rate reductions and prescribed income limits is compounding problems for some rural Shires and inconsistent with the new broader strategic and economic development expectations of Councils.

Chapter 14

Recommendations

LEADERSHIP AND GOVERNANCE

Defining the role of Local Government and balancing governance with CCT responsibilities.

Smaller Shires need to clearly state their vision, mission and core business. In this context, they must let their community know where they stand with regard to CCT policy, local preference in purchasing and the support of local and regional economic development.

- LG1. Grants Formulae Changes**
Seek changes to the Victoria Grants Commission formulae to recognise the special problems facing small and remote rural communities highlighted in this Study.
- LG2. Modify or Remove Prescribed Income Limits**
The State Government should reduce the required level of rate reductions for rural municipalities from the present flat 20%, and develop a more sophisticated sliding scale which takes account of factors such as:
- the fundamental differences between urban and rural areas;
 - the level of savings being delivered by CCT;
 - the impact on economic and social infrastructure;
 - the Shire's capacity to deliver necessary services from a reduced budget;
 - and other appropriate factors.
- LG3. Focus on Leadership, Governance and Identification of Core Business**
Given that contracting out of services will free up remaining Council staff to focus more on leadership, strategic planning, economic and regional development, Councils should actively take up this opportunity to improve their community leadership and governance capacity and develop initiatives to strengthen the capacity of local businesses and develop the strategic parts of their economy.
- LG4. Develop Vision and Agree on Expectations**
Councils should develop a strong and robust vision with their community, determine in partnership with the community what the core role and expectations of Local Government should be (ie: what kind of local government is needed to deliver that vision?), and determine what services are core to the delivery of that vision. (This will provide a focus for where the emphasis and effort should be put). Express these things in the corporate plan or strengthen the existing corporate plan accordingly. In deciding what kind of Council to be, the community must decide what social and economic trade-offs are to be made (eg: whether being a significant community employer is part of that vision etc.)
- LG5a. Regional Cooperatives and Resource Sharing**
To help improve viability and competitiveness, rural Shires should investigate the options of:

- resource sharing;
- regional service provision;
- "co-operative specialisation" - where each Shire specialises in and provides a specific service to several neighbouring Shires; and
- establishment of publicly owned companies or co-operative ventures (for example in road maintenance) which maintain full community control over services, provide greater opportunities for local employment, skill development and innovation, but provide for a culture of efficiency, best practice and customer focus;

as alternative mechanisms for achieving the government's required efficiency and cost objectives, whilst retaining local employment and "comprehensive government".

LG5b. Changes to NCP Legislation

If changes are needed to National Competition Policy Laws to facilitate these options, they should be pursued by the State Government in conjunction with the Commonwealth.

LG6. Training Courses

Undertake training courses for councillors, prospective councillors, commissioners and Council staff, in such fields as:

- benchmarking techniques;
- pricing analysis;
- an understanding of the impact competitive tendering can have on the economic, social, democratic and political dimensions of the community and region;
- improving service quality while reducing production and delivery costs;
- understanding the broader governance role of Councils.

LG7. Utilise MAV Resources

Councils should make use of existing MAV publications to assist them in undertaking internal organisational, management, human resources, accounting and other related changes to equip them for CCT.

ECONOMIC DEVELOPMENT

Actions to respond to and limit the impact of rural decline.

- ED1. Make Rural Development a Government Priority**
State and Commonwealth Governments should make a policy announcement that rural employment levels and township cohesion are a priority for government and vital for developing the economic prosperity of Australia, and Victoria in particular.
- ED2. RAS Assistance For Small Towns**
On the basis that farming communities need to be supported by a network of small centres providing accessible goods and support services, build on the foundation of the existing Rural Adjustment Schemes to develop assistance packages for small rural towns.
- ED3. National Study On Rural Decline**
With other rural Shires (preferably at a national level), commission a detailed study into the decline of rural Australia and small towns, in order to better understand the forces at work, particularly to analyse clearly the impact of federal and state government policies on rural decline and take responsive action.
- ED4. Review and Align Regional Development, Rural, Small Business and CCT Policies**
The State Government should review its CCT, rural assistance, regional development and small business policies and programs to achieve consistency and an integrated, whole-of-government approach. In particular, changes should be made to the policies and programs to overcome the contradictory impacts they are currently having and to address the issues raised in this Study.
- ED5. Training For Small Business**
The State Government should urgently allocate more resources to training and equipping small businesses to compete for opportunities presented under CCT. Training programs should be developed and delivered jointly with Local Councils, local government associations and business associations. Specific education and skills enhancement is especially needed in:
- understanding the needs of local, state and commonwealth buyers and the processes they use to procure goods and services;
 - preparing tender documentation;
 - improving customer service;
 - quality assurance;
 - identifying new markets.
- ED5a.** The Commonwealth Government should seriously reconsider withdrawing its "Business Skills to Rural Areas" Program due to cease in 1997.
- ED6. Regional Economic Development Strategy**
Councils should work with surrounding municipalities to implement the regional economic strategy.
- Strengthen existing regional strategies to include a component addressing CCT and enhancing the competitive position of small towns. Include in the regional strategies appropriate actions arising from this Study, so that these approaches are taken at the regional level as well as locally; and a consistent local

approach is being taken by all municipalities in the region.

- ED7. Local Economic Development Staff**
Councils should make it a high priority to employ an economic and employment development officer; and that person should make it a high priority to analyse and address CCT-related impacts.
- ED8. Local Preference Scheme**
Develop a "Local Preference Scheme" whereby local firms will (all things being equal) be given preference over non-local tenderers.
- ED9. Local Capability Assessment**
Councils should undertake detailed analysis of employment and unemployment numbers in small towns on a town by town basis; and assess the capability of small firms in those towns to compete under CCT; and use the findings to develop appropriate local economic initiatives.
- ED10. Local Employment Target**
Establish a local employment level "target" or benchmark as part of the Shire's local economic strategy and extend this concept across the region as part of the regional economic strategy.
- ED11. Develop Strategic Business Alliances**
Work with local firms to form strategic business alliances which strengthen the capacity of individual firms to compete; and encourage local businesses to develop links with larger franchises or business networks. While that latter course of action will reduce the independence of local firms, it will greatly expand their marketing and purchasing power and capacity for innovation.
- ED12. Priority For Road Construction and Maintenance Functions**
In terms of maximising viability of local employment, Council should put most of its employment development efforts in the short to medium term into identifying ways of maintaining local involvement in road construction and maintenance functions.
- ED13. Role of Regional and Community Employment Councils**
The Commonwealth should consider the role of the proposed Regional and Community Employment Councils in assisting in the delivery and implementation of appropriate recommendations in this Study.
- ED14. Training of Local People**
Councils should instigate a scheme requiring successful contractors under CCT to employ a percentage of local unemployed people and enhance their skills during the period of the contract.

CCT MANAGEMENT

Actions to optimise CCT outcomes and make the CCT process work better.

The Victorian Government should make appropriate changes to CCT guidelines and policy to eliminate or minimise the negative impact on rural communities.

It should also make provision for Councils to be exempted from all or part of CCT requirements where they can demonstrate alternatives which deliver efficiency savings, if the Minister is satisfied that the alternatives are likely to be successful.

- CT1. Moratorium on CCT Pending Review**
That a temporary moratorium be placed on CCT implementation (at least in terms of major new contracts in rural Shires) until impacts and recommendations highlighted in this Study and other submissions to the current review into the operation of CCT have been properly considered by the State Government.
- CT2. Changes To CCT Guidelines**
Lobby State Government to modify CCT implementation guidelines/rules as they apply to rural municipalities to allow Councils more autonomy and freedom (consistent with their charter under the Local Government Act) as follows:
- Percentage Targets**
Reduce the percentage target for rural municipalities AND/OR limit the percentage targets to refer to specific service types rather than global expenditure levels;
 - Timelines**
Lengthen the period of time for Councils to achieve current percentage targets, so as to reduce the current pressured environment;
 - EOIs as Alternatives to Tenders**
Allow Councils the flexibility to prepare a preliminary EOI to test the market prior to preparing and issuing formal tender documentation;
 - Allow Councils to treat market responses to EOIs as tenders to avoid the added expense and duplication of formal tendering. (This would require an amendment to Section 208F and 208C of the Local Government Act in accordance with the proposals outlined in the Shire of Towong's Case Stud);
 - Simplified Reporting**
Simplifying monthly reporting requirements to the Victorian Office of Local Government to make them less onerous;
 - Independent Benchmarking As Alternative to Tendering**
For small rural Shires or those where the number of Shire/Council employees plus their families represents a significant proportion of a rural community's population, Councils should have the option of exempting certain services from the CCT process and retaining them "in house" on the condition they are regularly and independently benchmarked to ensure performance at best practice market levels and that Council introduces internal changes to deliver necessary efficiency gains;
 - In regard to the above, more sophisticated or standardised benchmarking processes should be developed to more accurately assess all aspects of service quality and efficiency than is possible by current methods;
 - Local Suppliers vs Group Purchasing Schemes**
Where approved group purchasing systems (such as MAPS) satisfy the requirements of CCT and a local supplier is able

□ to match or better the group purchasing system price and service for an equivalent quality product (and the Council wishes to use the local supplier) then this purchase be acceptable for awarding of CCT expenditure points to the Council;

□ **Exemption From Tendering In Certain Cases**

Tendering not to be compulsory if:

- there is a lack of capable and reputable contractors;
- certain functions are considered essential or core functions of community government;
- control and protection of certain assets outweighs the benefits of competition;
- Council makes a transparent decision to cross-subsidise a specific service for the public or community good;
- there is a need to maintain Council capacity to respond to emergencies and undertake new initiatives;
- the preservation of skills and institutional knowledge outweighs benefits of competition.

CT3. Local Preference Policy

The State Government should allow Councils the flexibility to adopt a "Local Preference Policy" in the general context of the CCT guidelines. Such a policy should be subject to Ministerial approval, and should be available for scrutiny to tenderers and prospective tenderers when contracts are advertised. In deciding whether to approve a policy, the Minister should have regard to the economic circumstances of the region, the merit of the plan proposed, and the extent to which it has been the subject of local discussion and support by the local community.

In this regard, State and Commonwealth Governments should clarify the legal position regarding giving preference to local suppliers in the tendering process (given the conflicting interpretations) and develop a detailed policy outlining how a local preference system would operate.

CT5. Simplify Tender Documentation

The State Government should prepare simplified tender documents to assist the uptake of tendering by small businesses.

CT6. Monitor Results of CCT

The State government should closely monitor and compare the quality of services delivered under CCT compared to pre-CCT arrangements to determine whether the Victorian experience differs from international results.

CT7. Pre-Qualification of Tenderers

Councils should consider inviting local firms to prequalify for tendering in advance, in order to simplify the bidding process each time a tender is called. This would simplify matters for both businesses and the Councils.

Training Recommendations

This report has identified that there is an outflow of funds from the smaller Shires associated with contracting out.

Training is needed to assist in the development of enhanced capability among small business operators in the Shires, as well as in identifying steps that Shire staff can take to maximise retention of spending within Shires while complying with CCT guidelines.

A related issue is the possibility of a seminar looking at developments in road construction and maintenance for commissioners, councillors and engineers, to help them position themselves in an informed way among the challenges occurring.

The following training courses or seminars are recommended:

Business Opportunities Under CCT

Aim:

To familiarise small business owners within the Shires with CCT, the business opportunities it presents, and what they need to do in a strategic sense to prosper in the new competitive environment.

How To Tender Successfully

Aim:

To equip small businesses with the skills and tools they need to tender successfully, especially to Local Government. content would include how to prepare a competitive tender, changes required to orient your business to the competitive tendering environment, changes in government purchasing and procurement, government supply and purchasing policies etc.

(This course would be a more "nuts and bolts" type course than the previous one.)

Keep Spending Local Under CCT

Aim:

To provide an opportunity for commissioners, councillors, senior staff to discuss ways of retaining spending within Shires.

Target Audience:

Could be drawn from all smaller Shires in the district, by invitation. Provincial cities would probably not be included as they have a conflicting agenda.

Outlook for Rural Shire Involvement in Road Construction and Maintenance

Aim:

To equip commissioners, councillors, CEOs and engineers with an understanding of likely development of road construction and maintenance functions over the next 10 to 15 years so as to position themselves strategically.

Target Audience:

Senior elected people and officers from smaller Shires in Local Government across Australia.